



Refund Anticipation Loan (RAL)
Disclosure
March 23, 2006

Purpose

- Authorizing the posting and fair disclosure of certain information related to income tax refund anticipation loans (RALs), prohibiting certain practices related to RALs and imposing penalties for violation of mandatory disclosure requirements

Background

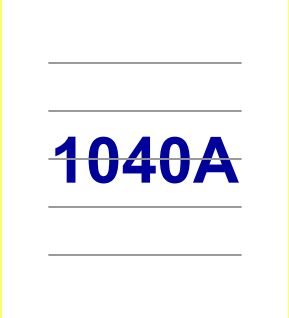
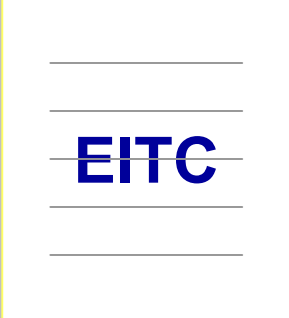
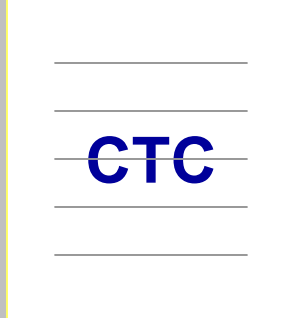


- ✓ Refund Anticipation Loans (RAL) are high cost, short-term (7-14 days) loans secured by and repaid directly from the consumer's IRS tax refund
- ✓ Often advertised as “instant money” or “fast refund” rather than as a loan
- ✓ RALs target the working poor – especially those receiving the Earned Income Tax Credit (EITC)
- ✓ The effective annualized interest rate for the average refund of \$2,150 is 178%
- ✓ RALs drain money from taxpayers and the community - most are held by out of state banks

San Antonio RALs

In 2004, 170,000 low-income San Antonio households received the Earned Income Tax Credit (EITC)

- ✓ 68% used a paid tax preparer
- ✓ 49% used a Refund Anticipation Loan (RAL)
- ✓ San Antonio working families spent an estimated \$13 million on RALs in 2004

Tax Preparation & RAL Fees Example

	+		+		
\$90		\$25		\$15	
+		+		=	*\$345
	\$15		\$200 (fee based on amount of refund & loan period)		

* Fees are approximate and will vary

Framework

- City is pre-empted by Federal and State law from regulating banks and the interest rates they charge
- City is pre-empted by State law from regulating Payday lenders
- City can require that entities offering RALs provide rate notification and inform customers of alternatives

Proposed Ordinance

- ✓ Compels commercial tax preparers to comply with loan disclosure requirements:
 - Alternatives to RAL to receive refund
 - Annualized interest rate and associated fees
 - Mandatory written disclosures in multiple languages
 - Oral explanation of written disclosures
 - Duration of the loan
 - Mandatory posting in a prominent location
 - Remedies and enforcement
- ✓ Sets policy for enforcement
- ✓ Establishes penalty of \$500 per infraction

Implementation

- ✓ **Provide broad-based community education:**
 - Extensive promotion of financial literacy to consumers
 - Outreach to 300-350 paid preparers and RAL issuers
- ✓ **Build stronger partnerships with financial institutions that will:**
 - Offer competitive and innovative alternatives to RAL and Payday loans
 - Launch campaign to encourage greater use of mainstream banking services

Implementation

- Begin community education campaign on March 28, 2006 with press conference
- On-site monitoring of RAL providers will begin during VITA tax season (January – April)
- Exploring use of COSA 311 or United Way 211 Helpline to facilitate community inquiries and complaints
- Provide sample disclosure forms to industry

Sample Disclosure Form



**Charge to prepare
your tax return**

\$ 130



**Charge to submit
your return to IRS**

\$ 15



**Charge for your
refund loan**

\$ 200

**APR% for your
refund loan**

178%

**Total Charge for
your tax return and
your refund loan**

\$ 345

**Staff recommends
approval of this
Ordinance**

